UNIVERSAL SERVICE MONITORING REPORT

CC DOCKET NO. 98-202

2005

(Data Received Through May 2005)

Prepared by Federal and State Staff for the

Federal-State Joint Board on Universal Service in

CC Docket No. 96-45

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Introduction and Summary

This is the ninth report in a series of reports prepared by federal and state staff members for the Federal-State Joint Board on Universal Service in CC Docket No. 96-45 (Universal Service Joint Board).[1] This report is based on information available to us as of May 2005.[2] These reports contain information designed to monitor the impact of various universal service support mechanisms, and the methods used to finance them. These mechanisms were adopted by the Federal Communications Commission (Commission), based on recommendations from the Universal Service Joint Board. These reports are part of a monitoring program created by the Commission in 1997 to replace a similar program in CC Docket No. 87-339 that resulted in a series of nineteen *Monitoring Reports.*[3] The current program incorporates most of the information that was collected under the previous program, and also new materials from the reports of the administrator of the universal service support mechanisms, the Universal Service Administrative Company (USAC). To enhance our monitoring ability, we have created an open docket,[4] which allows data, materials, comments, and studies to be submitted by any interested party at any time.

The monitoring program has proven to be valuable, not only as a report on the effects of the Commission's regulatory policies, but also as a complete census of all incumbent local exchange carriers. Because smaller carriers generally are exempt from most Commission reporting requirements, the *Monitoring Report* incorporates data from several sources, including the National Exchange Carrier Association (NECA) and USAC. USAC collects information from all eligible carriers to administer the universal service support mechanisms. - NECA, at the direction of the Commission, collects information in order to administer the access charge pools and also provides information to USAC that is utilized in administering the Universal Service Fund. The *Monitoring Report*, therefore, contains the only available comprehensive data on all incumbent local exchange carriers, including data on such matters as the number of telephone lines, calling volumes, and certain types of costs.

This report presents data for the eleven subject categories selected for monitoring. The first section provides information on the contributions to the universal service support mechanisms and industry revenues, on which those contributions are based. The next four sections provide information on the various support mechanisms: low-income support; high-cost support; schools

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1 The last report was released on October 12, 2004. *Universal Service Monitoring Report,* CC Docket No. 98-202, 2004 (Data Received Through May 2004), prepared by the Federal and State Staff for the Federal-State Joint Board on Universal Service in CC Docket No. 96-45.

2 In some sections, data received in June have been included.

3 *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, *Report and Order*, FCC 97-157, para. 869 (released May 8, 1997). *See* 47 C.F.R. § 54.702(i).

4 CC Docket No. 98-202.

and libraries support; and rural health care support. The remaining six sections provide information on matters that might be affected by the support mechanisms: subscribership and penetration; rates and price indices; network usage and growth; quality of service; infrastructure; and revenues, expenses, and investment. The *Monitoring Report* is now published once a year.

The following are highlights of some of the material in this report. Section 1 provides an update on industry revenues and the universal service program requirements and contribution factors. Section 2 includes the latest data on the Lifeline and LinkUp programs. Section 3 includes the most recent projected payments for all of the high-cost support mechanisms, based on the quarterly reports from USAC. It also includes information from the latest filing by NECA for the high-cost loop fund. Section 4 includes updated data on the schools and libraries support mechanism. Section 5 includes updated data on the rural health care support mechanism. Section 6 includes the most recent Census data on subscribership from the Current Population Survey. It also includes data on telephone penetration by income by state and a discussion of the impact of Lifeline programs on penetration. Section 7 includes updated Consumer Price Index and Producer Price Index data and other updated rate information. Section 8 includes the latest NECA data on access minutes. Section 9 includes updated data on the quality of service from the Commission's Automated Reporting Management Information System (ARMIS) reports. Section 10 includes updated data on infrastructure from the ARMIS reports. Section 11 includes the latest information on revenues, expenses, and investment from the ARMIS reports.

This entire report is available electronically through the Wireline Competition Bureau Statistical Reports[5] Internet site, which can be reached at <www.fcc.gov/wcb/stats>. It is available in both page image (.pdf) format and in a compressed (.zip) format, which, when unzipped yields word processing and spreadsheet files. In addition, information received well in advance of the next *Monitoring Report* will be made available on an interim basis in separate staff reports or in raw data files (such as most NECA filings used in the *Monitoring Report*) on the Wireline Competition Bureau Statistical Reports Internet site. In addition, the ARMIS data are available on the ARMIS Internet site, which can be reached at <www.fcc.gov/wcb/eafs/>.

For ease of public reference, parties submitting materials for this docket should provide a duplicate copy to the FCC's Reference Information Center,[6] where copies of all materials filed in the docket are available for public reference.

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1. Industry Revenues and Contributions

This section provides a general overview of the revenues of the U.S. telecommunications industry, and the contributions to the universal service support mechanisms that are based on these revenues.[1] Most of the data for 2003 are taken from filings of annual Telecommunications Reporting Worksheets (FCC Form 499-A) made with the Universal Service Administrative Company (USAC) on April 1, 2004.[2] Revenue data collected on these worksheets are used to administer contributions to the universal service fund (USF), Interstate Telecommunications Relay Service (TRS), North American Numbering Plan (NANP), and local number portability (LNP) programs. Filer revenues also are used to calculate FCC Interstate Telecommunications Service Provider (ITSP) regulatory fees.[3] Data presented for 2004 are taken from May 1, 2004, August 1, 2004, November 1, 2004, and February 1, 2005 FCC Form 499-Q quarterly filings.

<u>Revenue Information</u>

Universal service requirements include several mechanisms that help ensure that all Americans have access to affordable telecommunications service. In section 254(d) of the Telecommunications Act of 1996,[4] Congress mandated that "[e]very telecommunications carrier that provides interstate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, to the specific, predictable, and sufficient mechanisms established by the Commission to preserve and advance universal service."[5] The Commission implemented this

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1 Portions of this section are based on Industry Analysis and Technology Division, Wireline Competition Bureau, Federal Communications Commission, *Telecommunications Industry Revenues 2003* (March 2005).

2 Telecommunications providers filed worksheets containing calendar year 2004 revenue data on April 1, 2005. The worksheets are filed with the FCC's Data Collection Agent, which extensively reviews and validates data. Telecommunications providers routinely make revised filings. As a result, the data are not considered reliable enough for publication for several months after the initial filing date. Filings with 2003 revenues that were received after October 1, 2004, are not reflected herein.

3 Much of the information filed on FCC Form 499-A is proprietary. Publicly available information on individual carriers is contained in Industry Analysis and Technology Division, Wireline Competition Bureau, Federal Communications Commission, *Telecommunications Provider Locator* (March 2005). See also <gullfoss2.fcc.gov/cib/form499/499a.cfm>.

4 Pub. L. No. 104-104, 110 Stat. 56 *codified* at 47 U.S.C. §§ 151 *et seq.*

5 47 U.S.C. § 254(d).

mandate in a 1997 *Report and Order*.[6] The Commission subsequently selected USAC as the administrator of the universal service support mechanisms. Telecommunications providers currently file FCC Form 499-A (Telecommunications Reporting Worksheets, due each April) and FCC Form 499-Q (Telecommunications Reporting Worksheets, due one month after the close of each calendar quarter).

Virtually all providers of telecommunications must file FCC Form 499-A each year.[7] Telecommunications Reporting Worksheets are not filed directly with the FCC but rather with USAC, which serves as the data collection agent.

FCC Form 499-A asks each filer to report total, interstate and international revenues in two broad categories: those billed to universal service contributors for resale (carrier's carrier revenues); and those billed to *de minimis* telecommunications providers and end users (end-user revenues).[8] Filers must provide further breakdowns of local, wireless, and toll services. The form also asks each filer to choose the communications business that best describes its operations:[9]

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6 *See Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, 12 FCC Rcd 8776 (1997) (subsequent history omitted).

7 There are certain exceptions. Providers that offer telecommunications for a fee exclusively on a non-common carrier basis are not required to file if their total annual contribution to universal service would be less than $10,000. Government entities that purchase telecommunications services in bulk on their own behalf, public safety and local government entities licensed under Subpart B of Part 90 of the Commission's rules, and entities providing interstate telecommunications exclusively to government or public safety entities are not required to file. In addition, broadcasters, non-profit schools, non-profit libraries, non-profit colleges, non-profit universities and non-profit health care providers are not required to file. Finally, systems integrators that derive less than 5% of their systems integration revenues from the resale of telecommunications and entities that provide services only to themselves or to commonly owned affiliates need not file. However, services provided to exempt entities are subject to contribution requirements and therefore exempt entities may be required to pay USF pass-through charges to underlying services providers.

8 Telecommunications providers are considered *de minimis* and thus are not required to contribute to universal service (or file Form 499-Q) if their annual contributions to universal service would be less than $10,000. For universal service contribution purposes, underlying service providers treat *de minimis* firms as end users.

9 The detailed definitions of the filer categories are contained in section III.A of the *Instructions to the Telecommunications Reporting Worksheet, FCC Form 499-A* available at www.fcc.gov/Forms/Form499-A/499a.pdf. Starting in 2004, carriers were instructed to select up to 5 ranked categories of telecommunications service providers.

- All Distance Carrier
- Competitive Access Provider (CAP) or Competitive Local Exchange Carrier (CLEC)
- Cellular, Personal Communications Service (PCS) and Specialized Mobile Radio (SMR) Wireless Telephony Service Provider
- Coaxial Cable
- Incumbent Local Exchange Carrier (ILEC)
- Interexchange Carrier (IXC)
- Local Reseller
- Operator Service Provider (OSP)
- Other Local Service Provider
- Other Mobile Service Provider
- Other Toll Service Provider
- Paging and Messaging Service Provider
- Payphone Provider
- Prepaid Calling Card Provider
- Private Service Provider
- Satellite Service Provider
- Shared-Tenant Service Provider
- Specialized Mobile Radio - Dispatch
- Toll Reseller
- Wireless Data Service Provider

The Form 499-A instructs filers to report amounts actually billed to customers. This means that filers are required to report revenues net of discounts, but without making adjustments to reflect uncollectible revenues or international settlement payments and receipts. Most filers are able to report revenues in this manner using information contained in their corporate books of account. Some service providers, however, have no business or regulatory requirements to record intrastate or international revenues separately from interstate revenues, or to use the detailed revenue categories contained in the worksheets. Many wireless providers use the interim safe harbor percentages to estimate the interstate portion of their revenues.[10]

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10 *See Instructions to the Telecommunications Reporting Worksheet, FCC Form 499-A* section III.C.3., available at http://www.fcc.gov/Forms/Form499-A/499a-2005.pdf. In 2001 and 2002, the interim safe harbor for wireless carriers was 15%. In December 2002, the Commission raised the wireless interim safe harbor to 28.5%. Wireless carriers began reporting revenues based on the higher interim safe harbor percent on the FCC Form 499-Q due on February 1, 2003, and began contributing on this basis in April 2003.

Form 499-A filings sometimes contain mistakes. Initial examination of the data occasionally reveals carrier types, revenue amounts and/or revenues reported in service categories inconsistent with the known operations of the filer. Some corrections have been made based on supplemental filer information or as a result of audits. Nonetheless, disaggregated data are likely to be less accurate than industry totals.

Table 1.1 shows the major components of telecommunications revenues for 1997 through 2004. This table was created by simply aggregating the revenues in the major classifications designated on Form 499-A.

Tables 1.2 and 1.3 provide a look at annual industry revenues over time. Generally, Form 499-A revenue data can be tabulated in two distinct ways: by type of service provided and by type of business. Table 1.2 categorizes revenues by type of service and shows, for example, that carriers reported $89.7 billion in wireless service revenues for 2003. This total includes wireless service revenues from some carriers that are not identified as wireless carriers. In contrast, Table 1.3 shows that wireless service providers reported total revenues of $89.3 billion, including some revenues for fixed local and toll services.

Revenue data shown for 1993 through 1996 were derived from information filed on TRS worksheets. Revenue data for 1997 and 1998 were derived by combining TRS worksheet and Universal Service worksheet data. Since 1999, revenue data came from Form 499-A, which replaced both the TRS and Universal Service worksheets. Because of reporting changes, data since 1999 are not entirely consistent with data for prior years.[11]

Note also that each year, many filers erroneously report substantial amounts of switched toll revenues as other long distance revenues. The data are examined and some revenues are reclassified

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11 For example, special access revenues were included with other access revenues prior to 1997 but have been included with local private line services since then. Similarly, through 1996, filers reported as other local and mobile revenues substantial amounts of customer premises equipment, billing and collection, and other types of revenues that are excluded from contributions to universal service. These revenues are now reported as non-telecommunications revenues. Both tables contain estimates of non-telecommunications revenues that had been reported in prior years. Based on staff estimates, the 1996 telecommunications revenues reported on TRS Worksheets would have been $10.5 billion lower if revenues had been reported using current instructions. Some inconsistencies existed in the 1997 - 1998 period. For example, filers were required in 1997 to include inside wiring maintenance revenues as part of local exchange revenues. In 1998, filers were instructed to report these revenues as non-telecommunications service revenues. The local exchange service revenue data in Table 1.2 would show a greater increase from 1997 to 1998 if the same reporting instructions had been used for each year.

based on staff research. Even so, the other long distance category of Table 1.2 probably continues to contain some switched toll revenues, perhaps significant amounts in some years.

Table 1.4 illustrates how data from the Form 499-A are used to develop the funding base for the USF.[12] As noted above, providers are considered *de minimis* for USF purposes if their annual contribution is expected to be less than $10,000. Otherwise, only those providers that are not carriers are not required to contribute.

Revenue data for individual filers are not available to the public. However, Tables 1.5 through 1.8 present detailed industry totals by type of revenue and type of filer. Table 1.5 provides a detailed breakout of revenues for each of the Form 499-A revenue categories used to report services provided to other filers for resale. Table 1.6 displays similar detail for each of the revenue categories used to report telecommunications service provided to end users. Table 1.7 combines data from Tables 1.5 and 1.6 with data on non-telecommunications revenues to develop total industry revenues. Table 1.8 provides more aggregated revenue information by type of filers. The revenue categories presented in Tables 1.5 through 1.7 are explained in the Form 499-A filing instructions.

Table 1.9 presents data from quarterly filings of Form 499-Q for 2004. Form 499-Q is far less detailed than Form 499-A. Because Form 499-Q filings do not include a business type, filers were categorized based on the primary business type selected on their Form 499-A filings. The quarterly form asks filers to identify revenues as carrier's carrier, contribution base end-user, or non-telecommunications and to indicate the interstate and international shares of each category. Unlike Form 499-A, the quarterly form does not require filers to report revenues to the provision of specific types of services. Also, international-to-international revenues are included with non-telecommunications revenues rather than with end-user revenues.

The universal service rules prohibit the fund administrator from releasing company-specific information contained in Form 499-A and Form 499-Q worksheets.[13] Revenue data for individual filers are not available to the public.

Program Requirements and Contribution Factors

Carriers make payments into the USF based on their interstate and international end-user revenues. Carriers report their revenue data to USAC, which tabulates the data, and reports it to the Commission. The Commission reviews program requirements and revenue data, and determines the appropriate contribution factor. The Commission's Wireline Competition Bureau releases a public notice stating the proposed contribution factor for the upcoming quarter. If, after 14 days, the Commission takes no action regarding the proposed contribution factor, the factor becomes final.

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12 *See Telecommunications Industry Revenues 2001* for a comparison with the funding bases used for TRS, NANP, and LNP.

13 47 C.F.R. §54.711(b).

The Commission issued orders in February 2002 and December 2002 that changed the methodology used to determine payments that carriers make into the federal USF. Before these changes, service providers filed historic revenue information each quarter, which, after being reduced by 1% to account for uncollectible contributions, was divided into the total program requirements in order to calculate the contribution factor. Some service providers placed surcharges on customer bills to recover the amounts that they expected to make in USF contribution payments. These surcharges are called "pass-through" charges, and often exceeded the actual contribution rates. Service providers marked up the contribution rates for several reasons. The most important reason was because the revenues from pass-through charges also were included in the service provider contribution bases. Filers used the term "circularity" to describe this situation. Service providers also relied upon markups because they had to contribute on revenues even where the customer failed to pay. Some service providers also added markups to recover administrative expenses that they claimed were related to contributions. Finally, some service providers had declining revenues. Those providers had to contribute on a historic amount that was greater than their current period billings.

The markups resulted in numerous consumer complaints. The Commission twice changed the universal service contribution methodology to ensure that markups matched contributions. The first change, adopted in February 2002 and implemented in the third quarter of 2002, reduced each carrier's contribution base by the amount that the carrier paid into USF during the prior quarter.[14] The line item "Circularity Adjustment" in Table 1.10 accounts for this change. The "Circularity Adjustment" represents the industry's actual contributions during the prior quarter as reported by USAC. This eliminated circularity as a reason for carriers to inflate pass-through charges.

After this first change, some service providers continued to impose pass-through charges in excess of the published contribution factor. In December 2002, the Commission adopted additional changes to its contribution methodology, which were fully implemented in the second quarter of 2003. Form 499-Q filers now file information on billed revenues for the previous quarter and both projected billed revenues and projected collected revenues for the upcoming quarter. Projected collected revenues, which are projected billed revenues less an allowance for

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14 *See Federal-State Joint Board on Universal Service; 1998 Biennial Regulatory Review - Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms; Telecommunications Services for Individuals with Hearing and Speech Disabilities, and the Americans with Disabilities Act of 1990; Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size; Number Resource Optimization; Telephone Number Portability; Truth-in-Billing and Billing Format,* CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, 98-170, Further Notice of Proposed Rulemaking and Report and Order, 17 FCC Rcd 3752 (2002).

uncollectible revenues, form the basis for USF contribution assessments. Projected collected revenues are then adjusted to eliminate circularity.[15] Starting with the second quarter of 2003, the "Circularity Adjustment" amounts shown in Table 1.10 (discussed in more detail below) reflect expected USF contributions for the quarter rather than the industry's actual contributions from a prior quarter.

Table 1.10 shows the program funding requirements for 2004 and the first three quarters of 2005. For each program and for each quarter, the table lists projected program demand, administrative costs, interest income, and periodic true-ups. The table also shows the revenue base and contribution factors for each quarter. As explained above, the contribution base is 1% less than reported revenues to reflect the fact that some contribution assessments may prove uncollectible.

Table 1.11 shows universal service disbursements on a mechanism-by-mechanism basis for 2003 and 2004.[16] The schools and libraries mechanism and the rural health care mechanism operate on a school-year basis rather than a calendar-year basis, so for the purposes of Table 1.11, Funding Year 2002 (July 1, 2002 through June 30, 2003) disbursements were used for these two mechanisms for 2003, and Funding Year 2003 (July 1, 2003 through June 30, 2004) disbursements were used for 2004. The bulk of a funding year disbursements for these two mechanisms are made in the second half of the funding year. Chart 1.1 shows the same information graphically.

Table 1.12 shows, on a state-by-state basis, the total amount of funding disbursements for each of the universal service mechanisms, estimated contributions towards universal service, and the net estimated dollar flow (disbursements less estimated contributions) for 2003 and 2004.[17]

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15 *See Federal-State Joint Board on Universal Service, 1998 Biennial Regulatory Review - Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms, Telecommunications Services for Individuals with Hearing and Speech Disabilities, and the Americans with Disabilities Act of 1990, Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size, Number Resource Optimization, Telephone Number Portability, Truth-in-Billing and Billing Format*, CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, 98-170, Report and Order and Second Further Notice of Proposed Rulemaking, 17 FCC Rcd 24952 (2002).

16 Figures in Table 1.11 are lower than those in Table 1.10 due to the difference between projected demand and actual disbursements.

17 For a discussion of the methodology used to estimate contributions per state, see the Technical Appendix below and Table 1.13.

Technical Appendix

Carrier revenue information is not reported on a state-by-state basis. Therefore, it is necessary to estimate revenues per state in order to derive contributions made per state.

The nationwide sum of contributions to support universal service is equal to the payments made from USAC to carriers for universal service mechanisms plus administration costs. Contributions on a per-state basis are computed by multiplying nationwide contributions by the ratio of interstate end-user revenues in each state to nationwide interstate end-user revenues. Estimates of interstate end-user revenues for 2003 by state are reported in Table 1.13. Each state's share of interstate end user revenues is reported in Table 1.12.[18]

The remainder of this appendix provides a detailed description on how revenues are allocated to the states. Tables 1.5 and 1.6 present nationwide data on telecommunications revenues derived from information filed on Form 499-A Telecommunications Reporting Worksheets. Nationwide (cumulative) telecommunications revenues from these tables are divided into categories. These categories are ILECs' local exchange service revenues, CLEC revenues, subscriber line charge (SLC) revenues, access revenues, mobile wireless revenues and toll revenues.[19] Table 1.14 presents telecommunication revenues for each of these categories at the nationwide level.

As set forth below, once the revenues are divided into categories, we use data from several sources to estimate each state's telecommunications revenues. Data from the *Statistics of Communication Common Carriers*[20] are used to estimate on a state-by-state basis ILECs' local exchange service revenues, access revenues, and toll revenues.[21] Data from tariff access filings with the FCC are used to estimate SLC revenues. CLEC revenues are estimated on a state-by-

18 State's share of interstate end user revenues are reported under the heading percent of total estimated contributions.

19 The notes in Table 1.14 discuss how revenues from Tables 1.5 and 1.6 are assigned to categories in Table 1.14.

20 Industry Analysis and Technology Division, Wireline Competition Bureau, *Statistics of Communications Common Carriers*, 2003/2004 edition (October 2004).

21 Revenues for Alaska, American Samoa, Guam, the Northern Mariana Islands, and the Virgin Islands are not estimated using data from the *Statistics of Communications Common Carriers* because these jurisdictions have no telephone companies subject to the FCC's Automated Reporting Management Information System (ARMIS) 43-01 and 43-08 reporting requirements.

state basis using data from FCC Form 477, and mobile wireless revenues are estimated using data from FCC Form 502.

Table 1.15 shows intrastate carrier's carrier, end-user and total telecommunication revenues by category for ILECs' local exchange service, CLECs, wireless, access, ILEC toll, and non-ILEC toll.[22] Components of interstate carrier's carrier, end-user and total telecommunications revenues are presented in Table 1.16. These components include ILECs, CLECs, wireless, SLCs, access, and toll.[23]

Data from the 2003/2004 *Statistics of Communications Common Carriers* are adjusted prior to allocating nationwide revenues to the states. Data compiled in the *Statistics of Communications Common Carriers* include those ILECs with annual operating revenues over $121 million for 2002 and revenues over $123 million in 2003. The *Statistics of Communications Common Carriers* revenue data represent approximately 92 percent of the local telephone industry based on USF loops. Here, data from the *Statistics of Communications Common Carriers* are expanded to include the entire ILEC industry based on USF loops. Column 1 of Table 1.17 shows USF loops at year-end 2003. Column 2 shows the percent of the ILEC industry that is included in the tables in the *Statistics of Communications Common Carriers*. It is the average for year-end 2002 and 2003 data.[24] The adjustment formula in Column 3 is (100/Column 2).

In Table 1.18, ILECs' state local exchange revenues are allocated based on local exchange service and state miscellaneous revenues from Table 2.11 of the 2003/2004 *Statistics of Communications Common Carriers*. Local exchange revenues for allocation are the product of reported ILECs' local exchange service and miscellaneous revenues and the adjustment formula in Table 1.17. Allocation percentages in each state are the ratio of the state's allocation revenues to nationwide revenues. Local exchange revenues by type are determined by multiplying the allocation factor by the type of revenues (see Table 1.14).

In Table 1.19, we allocate interstate and intrastate CLEC revenues on a state-by-state basis by multiplying national revenues (see Table 1.14) by an allocation percentage. For those states with

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22 Estimated intrastate telephone revenues for Alaska, American Samoa, Guam, the Northern Mariana Islands, and the Virgin Islands are determined by multiplying the nationwide average intrastate telephone revenues per loop by number of loops in the jurisdiction.

23 Estimated interstate telephone revenues for Alaska, American Samoa, Guam, the Northern Mariana Islands, and the Virgin Islands are determined by multiplying the nationwide average interstate telephone revenues per access minute by number of access minutes in the jurisdiction.

24 *See* Table 5.7 of the *Statistics of Communications Common Carriers*, 2003/2004 edition, for year-end 2002 data.

publicly available data on CLEC lines that exceed 100,000, the allocation percentage is determined by dividing the number of CLEC lines as reported in FCC Form 477 by nationwide CLEC lines.[25] It is more difficult to determine the allocation percentage for the other states. For these states, the allocation percentage is the product of the following two percentages: 1) the percentage of nationwide CLEC lines that are in states in which CLEC line totals are not publicly available or have fewer than 100,000 CLEC lines, and 2) the ratio of Regional Bell Operating Company (RBOC) resold lines and unbundled network element (UNE) loops in the state as compared to RBOC resold lines and UNE loops in all states in which CLEC lines are not reported or have fewer than 100,000 CLEC lines reported.[26]

In Table 1.20, we allocate interstate and intrastate mobile wireless revenues on a state-by-state basis by multiplying national revenues (see Table 1.14) by an allocation percentage. The allocation percentage is determined by dividing the number of wireless numbers in a state using data from FCC Form 502 (Numbering Resources Utilization/Forecasting) by nationwide wireless numbers.

SLC revenues are allocated by state in Table 1.21. The sum of residential non-Lifeline lines (including both primary and non-primary lines) and single-line business lines are estimated by multiplying residential non-Lifeline lines and single-line business lines from Table 2.17 of the 2003/2004 *Statistics of Communications Common Carriers* by the adjustment factor from Table 1.17. Column 1 shows primary residential lines and single-line business lines which is the difference between total residential and single-line business lines, and non-primary lines. Non-primary residential lines are estimated by multiplying the percentage of non-primary lines by the sum of residential non-Lifeline lines and single-line business lines reported in Table 2.17 of the *Statistics of Communications Common Carriers*.[27] Multi-line business lines (Column 3) are estimated for the industry by multiplying the number of lines in Table 2.17 of the *Statistics of Communications Common Carriers* by the adjustment factor in Table 1.17.

Primary residential and single-line business lines SLC rates per month, shown in Column 4 are the weighted average of rates filed in the Tariff Review Plan (TRP) for price-cap carriers from the July 2002 and July 2003 filings and from National Exchange Carrier Association (NECA) pool

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25 *See* <http://www.fcc.gov/wcb/iatd/comp.html> for CLEC lines as of June 2003.

26 *See* <http://www.fcc.gov/wcb/iatd/comp.html> for RBOC data on resold lines and UNE loops as of June 2003.

27 Carriers that are not subject to price-cap regulation charge the same rate for a customer's first line as they do for additional lines. Staff estimated the percentage of non-Lifeline residential and single-line business lines that are charged the non-primary access rates based on data that the Commission receives from access filings from price-cap carriers and from ARMIS 43-08 filings.

and rate-of-return carriers.[28] Non-primary SLC revenues per line per month for price-cap companies, shown in Column 5, are the weighted average of rates filed in the TRPs from the July of 2002 and July of 2003 filings. Multiline business SLC rates per line per month in each state, shown in Column 6, are estimated based on the rates in the July 2002 and July 2003 TRP filings for price-cap companies and from NECA pool and rate-of-return carriers.[29]

Revenues used for allocating SLC revenues by state are determined by the following formula: 12 * [primary residential and single-line business SLC per line per month * (primary residential lines and single-line business lines) + multiline business SLC per line per month * (multiline business lines) + non-primary lines * non-primary SLC per line per month]. Allocation percentage in each state is the ratio of the state's allocation revenues to nationwide revenues. SLC revenues are determined by multiplying the allocation factor by the type of revenues (see Table 1.14).

In Table 1.22, interstate access revenues and private line revenues are allocated on a state-by-state basis based on net access revenues. Gross access revenues for allocation are the product of interstate access revenues from Table 2.11 of the 2003/2004 *Statistics of Communications Common Carriers* and the adjustment formula presented in Table 1.17. Revenues for allocation are the difference between gross access revenues for allocation and subscriber line charge revenues. Allocation percentages in each state are the ratio of the state's allocation revenues to nationwide revenues. Access revenues by type are determined by multiplying the allocation factors by the type of revenues (see Table 1.14).

In Table 1.23, intrastate access revenues are allocated between states based on intrastate access revenues from Table 2.11 of the 2003/2004 *Statistics of Communications Common Carriers*. Intrastate access revenues for allocation are the product of these access revenues and the adjustment formula in Table 1.17. Allocation percentage in each state is the ratio of the state's allocation revenues to nationwide revenues. Access revenues by type are determined by multiplying the allocation factor by the type of revenues (see Table 1.14).

Table 1.24 shows ILEC toll revenues of large ILECs reported in Table 2.11 of the *Statistics of Communications Common Carriers*, and ILEC intrastate toll revenues.[30] ILEC intrastate toll revenues are the product of ILEC reported revenues and the adjustment formula in Table 1.17.

Table 1.25 shows how non-LECs' intrastate toll revenues are allocated between states based

28 Carrier USF loop counts are used as weights. We assume that the residential SLC for NECA pool and rate-of-return carriers during the relevant time period was $6.25.

29 The rates of NECA pool carriers and rate-of-return carriers are assumed to be $9.20 per line per month for multiline business.

30 ILECs' toll revenues are assumed to be intrastate revenues.

on intrastate access minutes and intrastate access revenues.[31] Non-LEC toll is the difference between intrastate toll revenues and LEC toll revenues.[32] Intrastate toll revenues are reported in Table 1.14, and LEC toll revenues are reported in Table 1.24. Column 1 shows access minutes for allocation. Access minutes for allocation are the product of intrastate-interLATA access minutes from Table 2.5 of the 2003/2004 *Statistics of Communications Common Carriers* and the adjustment formula in Table 1.17. Column 2 shows each state's percentage of intrastate access minutes. Column 3 shows each state's percentage of intrastate access revenues.[33] The allocation percentages for non-LECs' intrastate toll revenues, presented in Column 4, are (75% * Column 2) + (25% * Column 3). Intrastate toll revenues by type presented in Columns 5 and 6 are determined by multiplying the allocation percentage by the type of revenues.

In Table 1.26, interstate toll revenues are allocated on a per state basis by interstate access minutes. Interstate access minutes are from Table 8.4. The allocation percentages are each state's percentage of interstate access minutes. Interstate toll revenues by type presented are determined by multiplying the allocation percentage by the type of revenues. (see Table 1.14).

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31 Intrastate access revenues are a proxy for intrastate toll rates.

32 We assume that all LEC toll revenues are end-user revenues.

33 Intrastate access revenues are reported in Table 1.23. Non-LEC toll is the difference between intrastate toll revenues and LEC toll. LEC toll is assumed to be end-user toll. Intrastate toll revenues are reported in Table 1.14 and LEC toll in Table 1.24.